

**7535-01-U**

**NATIONAL CREDIT UNION ADMINISTRATION**

**12 CFR Part 701**

**RIN 3133-AD26**

**Loan Interest Rates**

**AGENCY:** National Credit Union Administration (NCUA).

**ACTION:** Final rule.

**SUMMARY:** NCUA is amending its lending rule to include the criteria the NCUA Board considers in setting a permissible interest rate for federal credit unions exceeding 15 percent and to establish procedures regarding publication of its determination. The amendment will allow NCUA to notify federal credit unions of any increase in the interest rate ceiling through a Letter to Federal Credit Unions, other NCUA publications, and a press release, instead of issuing an amendment to the regulation every 18 months as it has previously done. The amendment will eliminate unnecessary, periodic regulatory amendments and provides a more

efficient and effective means of informing federal credit unions of the permissible interest rate.

**DATES:** This final rule is effective September 9, 2006.

**FOR FURTHER INFORMATION CONTACT:** Moissette I. Green, Staff Attorney, at Office of General Counsel, National Credit Union Administration, 1775 Duke Street, Alexandria, Virginia 22314-3428 or telephone: (703) 518-6540.

**SUPPLEMENTARY INFORMATION:**

**I. Background**

The Federal Credit Union Act (the Act) sets a 15 percent ceiling on the interest rate federal credit unions may charge on loans to members unless, in 18-month intervals, the NCUA Board establishes a higher rate. 12 U.S.C. 1757(5)(A)(vi)(I). The Act authorizes the NCUA Board to establish a higher interest rate ceiling for periods of no more than 18 months based on consideration of certain economic criteria and after consulting with congressional committees, the Department of Treasury, and federal financial institution regulatory agencies. Id. The Board's practice has been to exercise this authority by amending the general lending regulation. 12 CFR 701.21(c)(7). In the past, when the Board increased the interest rate ceiling, it has issued a final rule under the Administrative Procedure Act (APA) and published it in the Federal Register. 5 U.S.C. 553(b). Most

recently, on January 13, 2005, the Board issued a final rule setting a higher maximum interest rate of 18 percent until September 8, 2006. 70 FR 3861 (January 27, 2005).

The NCUA Board is amending its general lending rule regarding permissible interest rates to address the procedures for publication of a temporary increase in the maximum interest rate. This amendment provides that the Board, at least every 18 months, will make a determination in accordance with the requirements of the Act as to whether federal credit unions will be permitted to charge interest in excess of 15 percent and will provide notice of its determination through a Letter to Federal Credit Unions, other official NCUA publications, and in a press release.

This new procedure for providing notice to federal credit unions regarding the Board's determination on the permissible interest rate parallels the Board's long-standing procedure in providing notice to federal credit unions of its determination of the annual operating fee charged to federal credit unions. The operating fee is charged to federal credit unions under a specific provision in the Act. 12 U.S.C. 1755(a). The Act provides for the Board to assess an annual operating fee on federal credit unions "[i]n accordance with rules prescribed by the Board." Id. The regulation implementing the statutory operating fee provision is 12 CFR 701.6. This regulation does not set a particular operating fee, but describes the basis for assessment, coverage, the requirement of notice to credit

unions, and so forth. The Board establishes the annual operating fee as part of adopting its annual budget at the end of each year, sets the operating fee as a sliding scale based on asset size for federal credit unions, and provides notice to federal credit unions. The Board provides notice, by regular or electronic mail, to all federal credit unions through a Letter to Federal Credit Unions that sets out the operating fee scale. In addition, the operating fee is itemized for federal credit unions in the individual invoice sent annually to all federally insured credit unions regarding their capitalization deposit that supports share account insurance.

The interest rate provision in the Act does not require the Board to implement its authority in a rule or regulation, but provides only that the Board can "establish" a higher rate subject to certain criteria. 12 U.S.C. 1757(5)(A)(vi)(I). Although the Board has used the procedure of issuing a final rule amending the general lending regulation, the Board concludes the Act does not require it to do so and that it may act to "establish" an interest rate by Board action and provide notice by other means. Further, the Board believes the new procedure of individual notice to federal credit unions and elimination of potential regulatory amendments every 18 months are a more efficient and effective means for the Board to address and for federal credit unions to be informed of permissible interest rates in accordance with the Act. Accordingly, the Board is revising the current regulation to provide that it will determine, under the Act's criteria, no less than every 18 months regarding whether federal credit unions may charge

interest rates in excess of 15 percent and will give notice to federal credit unions directly, in substantially the same way it provides notice of the federal credit union operating fee.

Under the APA, notice and public comment are not required for interpretative rules, general statements of policy, or rules of agency organization, procedure, or practice, or when the agency for good cause finds that notice and public comment are impracticable, unnecessary, or contrary to the public interest.

5 U.S.C. 553(b). The Board has determined previously that notice and public comment for adjustments in the permissible interest rate ceiling are impractical and not in the public interest. See 70 FR 3861, 3863 (January 27, 2005). The Board notes the specific statutory criteria it must consider and the 18-month intervals for re-consideration make meaningful public comment virtually impossible. In addition, because of safety and soundness considerations, federal credit unions need to be able to forecast and adjust their rates to meet market changes with some degree of certainty as to what will be legally permissible. For these reasons, the Board's long-standing practice has been to issue a final rule, rather than seeking public comment, to notify federal credit unions of adjustments in the maximum allowable interest rate in order to provide maximum flexibility and certainty for federal credit unions.

Section 701.21(c)(7) of the NCUA regulations is amended to allow the Board to provide actual notice of any change in the interest rate ceiling to federal credit

unions. The APA permits executive agencies to personally serve or otherwise provide actual notice to persons subject to a rule instead of publishing it in the Federal Register. 5 U.S.C. 553(b). To publish an increase in the interest rate ceiling and comply with the requirements of section 107 of the Act, the Board must determine the ceiling in enough time to prevent a reversion to the statutory 15 percent maximum. 12 U.S.C. 1757(5)(A)(vi)(I). Before publishing any increase in the interest rate ceiling, the Board must coordinate with congressional committees, the Department of Treasury, and other financial regulators, and consider other factors, such as money market rates and credit union safety and soundness. Id. If the Board makes an adjustment, providing notice to federal credit unions directly is more expedient than publishing it in the Federal Register. Accordingly, the Board is amending its procedure to allow for the actual notice of any increase in the maximum interest rate.

The Board will notify federal credit unions of an increase in the interest rate ceiling through official NCUA publications and the media. NCUA's primary method of notifying federal credit unions will be through a Letter to Federal Credit Unions. NCUA currently uses these Letters to notify credit unions of policy statements, examination procedures, practices, and other significant regulatory matters, including, as noted above, the operating fee scale. The Letters are sent to all federal credit unions by first-class or electronic mail. Interested persons may obtain copies of the Letters from the NCUA website or by contacting the NCUA Publications Office. Additionally, the Board will provide notice of an

adjustment in the maximum interest rate in a press release. Federal credit unions will usually receive notice of an adjustment within two to three days of the Board's determination through these methods versus a general notice to the public of a regulatory amendment within a week through the Federal Register.

Additionally, the Board notes that the approach in this amendment to §701.21(c)(7) tracks the rules and procedures of the Federal Open Market Committee for publishing information relating to open market operations. 12 CFR 271.3. The Board has determined the amendments to §701.21(c)(7), the methods for publishing an adjustment in the interest rate ceiling for federal credit unions, relate to statements of policy, internal procedures, and practices for which public notice, comment, and a delayed effective date are not required under the APA. See 5 U.S.C. 553(b) and (d).

## **II. Regulatory Procedures**

### The Administrative Procedure Act

The amendments in this rule address the Board's procedure for providing notice to federal credit unions of the Board's decision regarding changes in the permissible interest rate and are procedural rather than substantive. Therefore, the rule is exempt from notice and public comment. 5 U.S.C. 553(b)(3)(A). The Board is establishing September 9, 2006 as the effective date of this rule because the current expiration date for the last amendment to the lending rule

establishing an 18 percent ceiling is September 8, 2006. The Board notes that, currently, there are legislative proposals under consideration in Congress that may affect the provision in the Act on interest rates and, as necessary, it will make changes in the lending rule and its procedures.

#### Regulatory Flexibility Act

The Regulatory Flexibility Act requires NCUA to prepare an analysis to describe any significant economic impact a rule may have on a substantial number of small entities, those credit unions with less than ten million dollars in assets.

This rule will not have a significant economic impact on a substantial number of small credit unions, and, therefore, a regulatory flexibility analysis is not required.

#### Paperwork Reduction Act

NCUA has determined that this rule will not increase paperwork requirements under the Paperwork Reduction Act of 1995 and regulations of the Office of Management and Budget.

#### Executive Order 13132

Executive Order 13132 encourages independent regulatory agencies to consider the impact of their actions on state and local interests. In adherence to fundamental federalism principles, NCUA, an independent regulatory agency as defined in 44 U.S.C. 3502(5), voluntarily complies with the executive order. This rule will not have substantial direct effects on the states, on the relationship



between the national government and the states, or on the distribution of power and responsibilities among the various levels of government. NCUA has determined that this rule does not constitute a policy that has federalism implications for purposes of the executive order.

The Treasury and General Government Appropriations Act, 1999--Assessment of Federal Regulations and Policies on Families

The NCUA has determined that this rule will not affect family well-being within the meaning of the Treasury and General Government Appropriations Act, 1999, Pub. L. 105-277, 112 Stat. 2681 (1998).

Small Business Regulatory Enforcement Fairness Act

The Small Business Regulatory Enforcement Fairness Act of 1996, Pub. L. 104-121, (SBREFA) provides generally for congressional review of agency rules. A reporting requirement is triggered in instances where NCUA issues a final rule as defined by Section 551 of the APA. 5 U.S.C. 551. The Office of Information and Regulatory Affairs, an office within OMB, has determined that, for purposes of SBREFA, this is not a major rule. As required by SBREFA, NCUA will file the appropriate reports with Congress and the General Accounting Office so that the rule may be reviewed.

**List of Subjects in 12 CFR part 701**

Credit, Credit unions, Loan interest rates.

By the National Credit Union Administration Board on July 20, 2006.

/s/

Mary F. Rupp

Secretary of the Board

For the reasons set forth in the preamble, the Board amends 12 CFR part 701 as set forth below:

## **PART 701--ORGANIZATION AND OPERATION OF FEDERAL CREDIT UNIONS**

1. The authority citation for part 701 is amended to read:

**Authority:** 12 U.S.C. 1752(5), 1755, 1756, 1757, 1759, 1761a, 1761b, 1766, 1767, 1784, 1787, 1789. Section 701.6 is also authorized by 15 U.S.C. 3717. Section 701.21 is also authorized by 5 U.S.C. 552. Section 701.31 is also authorized by 12 U.S.C. 1601 et seq.; 42 U.S.C. 1981 and 3601-3610. Section 701.35 is also authorized by 42 U.S.C. 4311-4312.

2. Amend §701.21 by revising paragraph (c)(7)(i) and (ii) to read as follows:

**§701.21 Loans to members and lines of credit to members.**

\* \* \* \* \*

(c) \* \* \*

(7) \* \* \*

(i) General. Except when the Board establishes a higher maximum rate, federal credit unions may not extend credit to members at rates exceeding 15 percent per year on the unpaid balance inclusive of all finance charges. Federal credit unions may use variable rates of interest but only if the effective rate over the term of a loan or line of credit does not exceed the maximum permissible rate.

(ii) Temporary rates. (A) At least every 18 months, the Board will determine if federal credit unions may extend credit to members at an interest rate exceeding 15 percent. After consultation with appropriate congressional committees, the Department of Treasury, and other federal financial institution regulatory agencies, the Board may establish a rate exceeding the 15 percent per year rate, if it determines money market interest rates have risen over the preceding six-month period and prevailing interest rate levels threaten the safety and soundness of individual federal credit unions as evidenced by adverse trends in liquidity, capital, earnings, and growth.

(B) When the Board establishes a higher maximum rate, the Board will provide notice to federal credit unions of the adjusted rate by issuing a Letter to Federal

Credit Unions, as well as providing information in other NCUA publications and in a statement for the press.

(C) Federal credit unions may continue to charge rates exceeding the established maximum rate only on existing loans or lines of credit made before the effective date of any lowering of the maximum rate.

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